> continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth ORS's findings and recommendations for certain adjustments resulting from ORS's examination of the application of Duke Energy Carolinas, LLC ("Company" or "DEC"), in Docket No. 2018-319-E. Specifically I will be addressing ORS's findings and recommendations for Company Adjustments 7, 13, 18, 19, 30, and 35, all of which are related to accounting deferrals. These findings and recommendations are explained in detail in my testimony.

Q. PLEASE OUTLINE THE FUNCTION OF AN ACCOUNTING ORDER TO DEFER COSTS.

A. An accounting order to defer costs is a regulatory instrument in which the regulatory commission issues an order at the utility's request to establish a regulatory asset (or liability) account into which certain costs can be deferred. The Financial Accounting Standards Board's (FASB) ASC 980 provides, among other things, general standards of accounting for regulated operations and ASC 980-430-25-1 states that:

> An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
>
> a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
>
> b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs.

In other words, FASB identifies the key criteria the utility must meet to capitalize costs through an approved regulatory asset as:

1) the incurred costs are likely to be recoverable for ratemaking purposes; and,
2) the costs have already been incurred, and the costs are not similar to costs the utility may incur in the future.

FASB outlines the accounting standards for deferring costs; however, it is ultimately the regulatory commission that determines what costs in the regulatory asset are allowable for ratemaking purposes, and the manner in which the utility is allowed to recover the allowable costs in the regulatory asset.

Once an accounting order is issued by the regulatory commission, the utility will create a regulatory asset account on the balance sheet and record costs to the regulatory asset as the costs are incurred. The utility will request to recover regulatory assets in a future general rate case proceeding. It is during the general rate case proceeding the regulatory commission will determine the appropriate amount of allowable costs to be recovered from customers, and the manner in which the utility is allowed to recover allowable costs. Accounting orders to defer costs are used by a utility to smooth earnings and rate recovery related to significant costs that arise from circumstances that are unexpected and/or non-recurring.

Q. WILL ORS REQUEST THE COMMISSION CONSIDER GUIDELINES FOR FUTURE DEFERRAL REQUESTS?

A. Yes. In Docket No. 2018-206-E, DEC, Duke Energy Progress, LLC (collectively “the Companies”) and ORS discussed the Companies’ request for approval of an accounting order to defer certain capital and operating expenses pursuant to S.C. Code Ann. § 58-27-1540 and S.C. Code Regs. 103-825 (Supp. 2015) related to the Power/Forward Initiative. On